

W 20435A-09-0296



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ARIZONA CORPORATION COMMIS

UTILITY COMPLAINT FORM

Investigator: Brad Morton

Phone: [REDACTED]

Fax: [REDACTED]

Priority: Respond Within Five Days

Opinion **No.** 2009 - 80264

Date: 7/8/2009

Complaint Description: 08A Rate Case Items - Opposed
N/A Not Applicable

First:

Last:

Complaint By: **Lou Anne**

Kirby

Account Name: Lou Anne Kirby

Home: [REDACTED]

Street: [REDACTED]

Work: Arizona Corporation Commission

City: Sonoita

CBR: DOCKETED

State: AZ **Zip:** 85637

is:

JUL - 9 2009

Utility Company: **Sonoita Valley Water Company**

Division: Water

Contact Name: [REDACTED]

Contact Phone: [REDACTED]

DOCKETED BY

[Signature]

Nature of Complaint:

Docket No. W 20435A-09-0296

Arizona State Corporation Commission
Comments on Sonoita Valley Water Rate Increase
June 29, 2009

COMMENTS ON RATE INCREASE REQUEST PROPOSED BY SONOITA
VALLEY WATER COMPANIES

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

2009 JUL - 9 P 12:16

RECEIVED

The following comments cover six points I think the Corporation commission should consider regarding Sonoita Valley Water's request for a rate increase and lead to the following conclusion:

- No water rate increase of the magnitude proposed now or at any other time.
- No water rate increase even at a more reasonable level until certain conditions have been met, as enumerated below.

As a preface to my comments I want to try to dispel the myth that I heard reiterated a number of times at the meeting held last Wednesday that the current management is far superior to any management we've had in the past. This myth, I believe, is based on two erroneous factors. First, the Corporation Commission believes the system is working better now than in the past based on the lack of complaints. Second, the residents believe the system is working better now because they are not suffering water outages. Both of these perceptions result from the same condition. Most of the residents now have their own water reservoirs and therefore are unaware of the problems. I do not have a tank, and I have low pressure for period of time every week. I report the low pressure/no water situation only when it persists for a whole day or longer. I came home from the meeting last Wednesday to find very low pressure. The pressure was up again by midnight so I did not report it. SVW will tell you that I frequently report low pressure or outages. I cannot comment on managements prior to Mr. Ronstadt's but I can say that under his tenure the situation was slightly better, at least after he drilled the 540-foot well in

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1996. I have lived here for 15 years, which may be longer than many of my neighbors. Mr. Ronstadt acquired the water company the year before I moved here. During his ownership we were NEVER without water for four consecutive days as we were earlier this year. He always managed to get water out within a day, even if he had to haul water. He drilled two wells (one unsuccessful and one that is still producing water). He patched many leaks though he did leave many leaks unattended. He had many failings among them he did not have \$300,000 to pump into the system, as Mr. Lewis says he has done. He was on the verge of declaring the system bankrupt, as I believe Mr. Lewis is also. Several people have told me that the current management has "at least plugged the leaks." Not so according to the current filing with the Corporation Commission. Sonoita Valley Water reported that in 2008, it pumped 4.6 gallons of water and sold less than 2 million gallons. More than twice the gallons sold were pumped and apparently leaked back into the aquifer.

Mr. Ronstadt was down here at least once a month making repairs and talking to residents. I don't believe Mr. Lewis has ever come down here except for the two meetings he's held. Please refer to the attached newspaper article from 1996.

I make this point not to argue the past but because I do not want the Commissioners to be misled into thinking that the new management is so far superior to anything we've had in the past that Southwestern Utilities Management and the current Sonoita Valley Water should somehow be rewarded for their fine work. The fact is the system is and always has been inadequately funded and maintained. The solution lies not in giving SUM and SVW more dollars to play with, certainly not in giving them a tax base via a water district, but in developing a new plan of action in concert with the residents. No one has ever asked us to participate in the solution – only to pay for the results.

POINT 1

Sonoita Valley Water (SVW) and Southwestern Utilities Management (SUM), were represented at the meeting held at the County Building in Sonoita at 6 p.m. on Wednesday, June 24, by E. H. (Buck) Lewis (SVW) and Bonnie O'Connor (SUM) plus Steve Wene, attorney retained by SUM. Confusing as it may be, Sonoita Valley Water Company is the name of a combined company that comprises Los Encinos Water Company, Southern Water Company and Sonoita Valley Water Company. For purposes of this comment, all my references to SVW will be to the Papago Springs company exclusively - omitting the other two companies. Mr. Lewis and Ms O'Connor stated unequivocally that SVW needs a new well and that the existing well is inadequate to meet the needs of the current 41 customers (number of customers obtained from their filing with the Corporation Commission). They propose to drill a new 8" well, 1000-foot deep well, which together with pumps and other equipment, would cost \$150,000.

Mr. Lewis stated that the current well is 830 feet deep and has a 6" casing. According to Mr. Lewis's statement in the meeting, the well is currently putting out between 18 and 25 gallons per minute. If we assume an average of 20 gallons per minute, that would result in about 870,000 gallons per month. If the 41 ratepayers averaged 5000 gallons a month they would need only 205,000 gallons a month. But is that realistic? Turning to another page in the SVW filing with the Corporation Commission, we find that SVW sold just under 2 million gallons of water in 2008 (1,998,000). That averages out to 4,061 gallons a month, almost a thousand gallons a month less than the hypothetical case illustrated above. Let's assume the well can only be pumped half the time, that would still be a yield of more than 5 million gallons a year, more than adequate for our needs.

Why, then, are we being asked to approve construction of a new well at a cost of \$150,000?

POINT 2

This second point also is related to the need for another well. This point raises issues of both accuracy and credibility. All wells in Arizona are a matter of public record so there is no excuse for providing incomplete or inaccurate information.

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SVW/SUM represent in their filing with the Corporation Commission that there are three wells on the SVW site. These are:

Unknown date (presumably prior to 1990): 55-633050. Casing Depth 503 feet. Casing diameter: 4". Pump yield 1 Ogpm

1990: 55-528690: Casing Depth 296 ft. Casing diameter: 6" Pump yield: 7 gpm

2007:55-214359: Casing Depth 830 feet. Casing diameter: 6" Pump yield: 35 gpm

This list omits at least three wells, one that was in existence before Mike Ronstadt acquired the company in 1993 (although this may be the well 55-528690) and two that were drilled while Mr. Ronstadt owned the system. I don't know the depth of the preexisting well but I do recall Mr. Ronstadt telling me that it was producing on 3-5 gpm. He then drilled a 130-foot well located adjacent to and almost in the streambed of the sandwash that runs through the property. He was unable to go deeper than 130 feet, he said, even though he knew that was inadequate because the driller broke the casing inside the well. I think there may also have been financial considerations. That this well was drilled in 1993 or 1994, I personally observed. I also personally observed a second well drilled while Mr. Ronstadt owned the company. I believe that is the undated well shown by Mr. Lewis at a casing depth of 503 feet. I personally interviewed the driller (Bob Jackson of BJ Drilling, Benson) who told me he drilled to a depth of 540 feet and that the well initially produced 25 gpm. (See attached article from the Nogales International dated June 20, 1995). That well was still producing when Mr. Lewis acquired the company, though its flow had diminished considerably. However, I was told by a technician from SVW a year ago that by combining the yield from Ronstadt's second well and Mr. Lewis's new well, we had a more than adequate water supply.

Why are only three wells listed when I can document 5 wells on the site and was told by Bob Grennan and Lee Sims that there was also an earlier well, making six altogether? I believe one well is under a storage tank. If the reason is that they only listed productive wells, then I think the report omits an important fact, namely there are several dry bores on the site. Additionally, the information given is inaccurate, which is inexcusable since wells are a matter of public record.

That's question 1. Question 2 is the same as for Point 1. Why do we need to spend \$150,000 for a new well.

POINT 3

This point has to do with the distribution system, its mapping and maintenance.

For the test year (2008), the filing with the Corporation Commission represents that roughly 4.6 million gallons of water were pumped and roughly 2 million gallons of water were sold. That is a discrepancy of more than half the available water. For comparison, Los Encinos is shown as pumping 3.8 million gallons and selling 3.2 million gallons (both figures rounded). That's about a 16 percent loss, which seems high but is much less than the 130 percent loss reported by SVW.

SVW and SUM attribute the loss to leaks in the system. Buck Lewis long ago identified mapping the distribution system as a priority so that leaks could be found and plugged. Nothing has been done in this direction and no satisfactory answer has been given as to why. It appears that SUM racks up about \$800 in expenses each time a crew is dispatched to handle an emergency. At some point, it would clearly be more cost effective to quit spending money responding to crises and get to the root of the problem. If for some reason the system cannot be mapped, then could they not at least install check valves at intervals and so the lines could be tested incrementally? Better yet, why not simply skip the mapping and go directly to replacement?

The question here is why, after four years and \$300,000 has nothing been done to stop the stagger volume of water being lost, either by plugging leaks or by installing a new distribution system?

POINT 4

We have not seen the engineering report mentioned by Mr. Wene and Ms O'Connor. We do not know what instructions were given to the engineering firm. Were they asked to provide a range of options?

For example, regarding the distribution system, did the engineering report compare the cost of mapping the

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current system to simply bypassing that step and moving directly to replacing the entire system? Were they asked if this could be done incrementally starting with the most problematic areas (I would guess near the intersection of Holbrook and Collie at the north end)? As to the replacement itself, why do we need to replace a 2" system with a 5" system? When the water is flowing, the 2" system is adequate, so why not upgrade to 3 inches? Why 5 inches? Were the engineers asked to provide a range of options? What would be the cost differential between 3 inches and 5 inches?

POINT 5

This point has to do with efficiency and accountability. SVW reports spending almost \$35,000 on "outside services" in 2008. Ratepayers have observed a number of incidences of multiple pickup trucks and personnel being dispatched to handle emergencies. "After hour" pay was authorized on many occasions. In addition to the \$35,000 in outside services, another \$10,280 was paid under the heading of "Transportation." It appears that is the SVW share of maintaining what appears to be a fairly sizable fleet of pickup trucks and other vehicles. I believe SUM could and should run a tighter ship.

The question is what can be done to provide more efficient day-to-day management? One suggestion might be to engage an on-call technician from among the many qualified technicians living in the area and pay on a per diem basis. No call-outs, no pay. This would avoid the transportation expense involved in maintaining and depreciating a fleet of trucks, plus overtime pay, etc. Foster Pump, Hendricks Plumbing, and Elgin Energy come to mind. This would have the further advantage of keeping money in the community and promoting better communication with ratepayers.

POINT 6

This is about ownership issues. Both Bonnie O'Connor and Mr. Lewis insist that he is the sole owner of SVW, though he is clearly a passive owner. He seems to have little or no role in the management of the company, including applying for grants and making policy and financing decisions. Ratepayers are paying a company contracted by the owner for services that normally would be performed by the owner. Further Bonnie O'Connor is listed as an officer of the SVW companies.

The attorney, Mr. Wene, commented that Mr. Lewis has not received any return on his investment much less making a profit. To me it would seem that Mr. Lewis is either an investor seeking return on investment OR owner seeking a profit, but not both. He was asked if the \$164,324 shown in the filing as "retained earnings" is part of the \$656,271 for which Mr. Lewis is seeking financing, according to his filing with the Corporation Commission. The question was not answered.

Further, although Mr. Lewis stated he is the sole owner of the combined Sonoita Valley Water companies, we have not been told whether Mr. Lewis is a shareholder in Southwestern Utilities Management. There seems to be an unusually close relationship between these two companies. If Mr. Lewis is a shareholder in SUM, does he then partake of the profits of SUM.

It appears Mr. Lewis is more an investor than an owner of these companies. Would it not be more economical for the ratepayers for Mr. Lewis to assume a more active management role, rather than contracting out for policy and financing issues? SUM bills its hours out at \$35 to \$65 an hour.

COMMENT AND REQUEST

In conclusion, I would like to go on record as opposing any rate increase of any magnitude until certain conditions are met. Regardless of those conditions (listed below), I utterly oppose a rate increase of the magnitude requested now or in the future. An increase of that magnitude would force homeowners to drill more wells and reduce the water table in the area even further. The conditions I would like to see before a more modest rate increase is approved are;

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1. SVW companies and SUM bring forward plan of action that would include a pared down and more realistic list of improvements . The list should realistically address thç adequacy of the current wells on the site. If a new well is proposed in the near future (within five years), the plan should conclusively demonstrate that the current wells are insufficient for the number of houses now or potentially served.

2.

leaks. If mapping is impossible or impractical, propose an alternative for finding leaks, including a canvass of ratepayers, who may well know or suspect where leaks are located. Detail the cost of replacing the entire distribution system, either all at once or incrementally.

3. Identify economies in what appears to be a wasteful and inefficient management system. From SUM's website, I learned that their primary expertise is in getting water rate increases approved by the Corporation Commission, in getting grants for water companies, and in maintaining a close working relationship with the Corporation Commission. I would like for SUM to demonstrate the same level of zeal in protecting the interests of the SVW ratepayers.

4. Demonstrate good faith and restore a measure of trust by being more forthright in disclosing the relationship between the owner and the management company and by correcting discrepancies in their repofing Their annual report lists Bonnie O'Connor as Secretary, yet she seemed to disavow a relationship with the water companies.

FINALLY

Let me assure you in closing that I do understand that expensive improvements must be made if we are to have a workable water system and protect our property values, and that the ratepayers ultimately will bear the cost of those improvements. I did not oppose last year's rate increase based on my judgment that the owner had drilled a new well and was entitled to be compensated. I do not, however, intend to write a blank check to either the owner or the management company. To win my support, any rate increase needs to be tied to a specific improvement plan with reasonable associated costs and an asswance that when the project is paid for, the rate will be rolled beck. I will not support a laundry list of potential improvements an engineering firm thinks should be made. I am a retired city planner. I have no doubt that any engineering firm given an open-ended assignment will design to the maximum. It could be argued it would be irresponsible not to. To implement everything the engineer recommends in this community and in this economic climate would likewise be irresponsible.

END

End of Complaint

Utilities' Response:

Investigator's Comments and Disposition:

Called consumer to acknowledge receipt of Opinion.

End of Comments

Date Completed: 7/8/2009

Opinion No. 2009 - 80264
